

INFO	LOG-00	AF-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00
	INL-00	DINT-00	DODE-00	DOEE-00	DOTE-00	ANHR-00	WHA-00
PERC-00	DS-00	DHSE-00	EXIM-01	E-00	FAAE-00	VCI-00	
FRB-00	H-00	TEDE-00	INR-00	ITC-01	LAB-01	L-00	
MOFM-00	MOF-00	VCIE-00	NRC-00	NSAE-00	ISN-00	OES-00	
OMB-00	NIMA-00	PM-00	PRS-00	ISNE-00	DOHS-00	FMPC-00	
SP-00	IRM-00	SSO-00	SS-00	STR-00	TRSE-00	NCTC-00	
BHG-00	EPAE-00	IIP-00	PMB-00	DSCC-00	PRM-00	DRL-00	
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C O N F I D E N T I A L MEXICO 002865

E.O. 12958: DECL: 10/02/2019

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SUBJECT: TENSIONS BETWEEN GOM AND ELECTRICITY UNION ESCALATE

Classified By: Ambassador Carlos Pascual. Reasons 1.4 (B) and (D)

¶1. (C) Martin Esparza, leader of the Sindicato Mexicano de Electricistas (SME), the radical union that runs state owned electricity company Luz y Fuerza del Centro (LFC), threatened together with other unions to take a series of actions if the GOM does not recognize Esparza as legitimate leader of the SME by October 5. Actions the union may take, according to Esparza, are strikes and demonstrations including a massive march on the President's official residence, Los Pinos. There have been other claims that SME may selectively cut off power to segments of Mexico City to put pressure on the GOM. However, Esparza has denied these claims. Econoff has heard reports that the police have surrounded the LFC administrative building and may take action if the union cuts off power to parts of the city. We have not been able to confirm these reports.

¶2. (C) The GOM does not recognize Esparza as the legitimate leader of the SME due to irregularities that occurred during his July 2009 election. Esparza claims this failure to recognize him is part of a plot by the Secretary of Labor and the Mexican government to dissolve LFC, disband the union and merge both with the other state owned electricity company, la Comision Federal de Electricidad (CFE). Esparza will make a formal effort on October 5 to hand over his credentials - "toma la nota" - to the Secretary of Labor. At this stage, it appears that the Secretary of Labor will refuse to accept them.

¶3. (U) CFE and LFC are Mexico's two state-owned electricity companies. CFE is obligated to supply electricity to the entire country as a public service except to Mexico City and some municipalities of the State of Mexico, Morelos, Hidalgo and Puebla where LFC is the supplier. In an area measuring less than 1 % of the national territory, LFC distributes electricity to almost 25% of the country's population. This population lives in 16 boroughs or precincts of Mexico City; 82 municipalities in the State of Mexico; 45 municipalities in the State of Hidalgo; 2 in the State of Morelos and 3 in the State of Puebla.

¶4. (C) COMMENT: Tensions between the GOM and SME have existed for years. SME is a left wing "rogue" and reputedly corrupt union with which most Mexicans administrations have resisted dealing. The union is against privatization or any opening of Mexico's electricity sector. Loosely aligned with the PRD, the SME has never been well accepted by either the opposition PRI or ruling PAN parties. Nor have PRI or PAN governments wanted to invest in LFC as long as SME controls the company. As a result, LFC is plagued by high costs and

inefficiencies, creating an awkward situation for Mexico's electricity market. For efficiency, the best result would be for the GOM to dissolve LFC and merge the company with its larger counterpart CFE. For years policymakers have talked about the government either forcefully taking over the company or buying out the union's collective bargaining agreement.

15. (C) COMMENT CONTINUED: The question for Calderon is the risk of political fallout and union opposition, particularly when he already has a major political battle on the budget. In the past the union has been united. The election of Esparza, however, appears to have opened fissures in SME's leadership. Some energy experts contend now is the time for the Calderon Administration to take decisive action. Others argue that it does not appear Calderon is prepared to make a bold move. Taking over LFC is probably a move that Calderon would prefer not to take, but he may well do so if the alternative would be blackouts across Mexico City. How Esparza's efforts to gain recognition from the Secretary of Labor play out on October 5 will shape these decisions.

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